



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
BATH COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BATH COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Auditor of Public Accounts has completed the Bath County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$68,207 from the prior fiscal year, resulting in a cash surplus of \$661,350 as of June 30, 2000.

Debt Obligations:

Total bonded debt principal as of June 30, 2000, was \$252,000. Future collections of \$319,150 are needed over the next nine years to pay all bonded debt principal and interest.

Report Comments:

- The County Should Require Depository Institutions To Pledge or Provide Sufficient Collateral To Protect Deposits

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
BATH COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	10
NOTES TO FINANCIAL STATEMENTS	12
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE.....	19
SCHEDULE OF OPERATING REVENUE	23
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	27
SCHEDULE OF OTHER EXPENDITURES	31
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	35
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	39
FINDINGS AND QUESTIONED COSTS	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	47
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	48
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Ray Bailey, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Bath County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Bath County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Bath County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided for in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of Bath County, Kentucky, and the related statement of cash receipts, cash disbursements, and changes in cash balances as of and for the year ended June 30, 2000, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary,
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Ray Bailey, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Our audit was performed for the purpose of forming an opinion on the financial statements of Bath County, Kentucky, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The information provided on the accompanying schedules, except for the schedule of findings and questioned costs, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following area of noncompliance:

- The County Should Require Depository Institutions To Pledge or Provide Sufficient Collateral To Protect Deposits

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2000, on our consideration of Bath County, Kentucky's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 3, 2000

BATH COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

Fiscal Court Members:

Ray Bailey	County Judge/Executive
Vernon Crouch	Commissioner
Billy Martin	Commissioner
E.H. Snedegar	Commissioner

Other Elected Officials:

Donald Maze	County Attorney
Palmer Crouch	Jailer
Glen Thomas	County Clerk
Randall Armitage	Sheriff
Paul Goodpaster	Property Valuation Administrator
Robbie Powell	Coroner

Appointed Personnel:

Brenda Thomas	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

BATH COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 181,346	
Road and Bridge Fund:		
Cash	250,439	
Jail Fund:		
Cash	2,917	
Local Government Economic Assistance Fund:		
Cash	24,493	
Courthouse Restoration Fund:		
Cash	107,876	
Payroll Revolving Account - Cash	13	\$ 567,084

Special Revenue Fund Type

911 Fund:

Cash	\$ 23,730	
Scattered Site Homebuyer Fund:		
Cash	100	23,830

Debt Service Fund Type

Building Commission Fund:

Cash	\$ 30,722	
Debt Reserve	39,677	70,449

Other Resources

Debt Service Fund Type

Building Commission Fund:

Amounts to be Provided in Future Years for Bond Principal Payments (Note 4)	181,551	
Total Assets and Other Resources		\$ 842,914

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2000
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

Payroll Revolving Account - Cash	\$	13
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Debt Service Fund Type

Building Commission Fund:		
Bonds Payable (Note 4)		252,000

Fund Balances

Reserved:

General Fund Type

Courthouse Restoration Fund		107,876
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Special Revenue Fund Type

911 Fund	\$ 23,730	
Scattered Site Homebuyer Fund	<u>100</u>	23,830

Unreserved:

General Fund Type

General Fund	\$ 181,346	
Road and Bridge Fund	250,439	
Jail Fund	2,917	
Local Government Economic Assistance Fund	<u>24,493</u>	<u>459,195</u>

Total Liabilities and Fund Balances		<u>\$ 842,914</u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

BATH COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,603,745	\$ 628,411	\$ 775,753	\$ 55,045
Transfers In	221,423	130,247		90,000
Total Cash Receipts	<u>\$ 2,825,168</u>	<u>\$ 758,658</u>	<u>\$ 775,753</u>	<u>\$ 145,045</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,479,128	\$ 588,509	\$ 614,937	\$ 146,193
Transfers Out	221,423	91,176	130,247	
Schedule of Other Expenditures	21,260			
Bonds:				
Principal Payment	22,000			
Interest Payment	13,150			
Total Cash Disbursements	<u>\$ 2,756,961</u>	<u>\$ 679,685</u>	<u>\$ 745,184</u>	<u>\$ 146,193</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 68,207	\$ 78,973	\$ 30,569	\$ (1,148)
Cash Balance - July 1, 1999	593,143	102,373	219,870	4,065
Cash Balance - June 30, 2000	<u>\$ 661,350</u>	<u>\$ 181,346</u>	<u>\$ 250,439</u>	<u>\$ 2,917</u>

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2000
(Continued)

General Fund Type		Special Revenue Fund Type			Debt Service Fund Type	
Local Government Economic Assistance Fund	Courthouse Restoration Fund	911 Fund	Scattered Site Homebuyer Fund	Forest Fire Protection Fund	Building Commission Fund	
\$ 37,468	\$ 528,580	\$ 100,767	\$ 410,481	\$ 1,176	\$ 67,240	
\$ 37,468	\$ 528,580	\$ 100,767	\$ 410,481	\$ 1,176	\$ 67,240	
\$ 34,190	\$ 575,115	\$ 108,527	\$ 410,481	\$ 1,176	\$	21,260
						22,000
						13,150
\$ 34,190	\$ 575,115	\$ 108,527	\$ 410,481	\$ 1,176	\$ 56,410	
\$ 3,278	\$ (46,535)	\$ (7,760)	\$ *	\$	\$ 10,830	
21,215	154,411	31,490	100		59,619	
\$ 24,493	\$ 107,876	\$ 23,730	\$ 100	\$	\$ 70,449	

* Does not agree to prior year ending balance due to omission of outstanding check.

The accompanying notes are an integral part of the financial statements.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Bath County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Building Commission Fund as part of the reporting entity.

Additional - Bath County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Bath County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are subjected by oversight of state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. A list of Bath County Fiscal Court's Fund Types, a definition of each, and a list of county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Bath County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), and the Courthouse Renovation Fund.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The 911 Fund, the Scattered Site Homebuyer Project Fund and the Forest Fire Protection Fund of the Fiscal Court are reported as a Special Revenue Fund Type.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and include funds for the Building Commission Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided for in future years.

D. Legal Compliance - Budget

The Bath County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Building Commission Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type/Special Revenue Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Bath County Fiscal Court: Ambulance Taxing District, Library Taxing Districts, Bath County Water District, and Sharpsburg Water District.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

BATH COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000
 (Continued)

Note 3. Deposits and Investments

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$140,302 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 677,054
Uncollateralized and uninsured	<u>140,302</u>
Total	<u><u>\$ 817,356</u></u>

Note 4. Long-Term Debt

Bonds Outstanding in the Building Commission Fund are:

On January 1, 1981, the Bath County Public Properties Corporation issued \$530,000 of revenue bonds for the purpose of courthouse renovation. The bonds require that an annual interest and principal payment be made on January 1 of each year commencing January 1, 1981. The bonds will mature January 1, 2009. As of June 30, 2000, the principal amount outstanding is \$252,000. Bond payments for the remaining years are:

BATH COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000
 (Continued)

Note 4. Long- Term Debt (Continued)

Bonds Outstanding in the Building Commission Fund are:
 (Continued)

Due Date	Scheduled Interest	Scheduled Principal
2000-2001	\$ 12,600	\$ 23,000
2001-2002	11,450	24,000
2002-2003	10,250	25,000
2003-2004	9,000	26,000
2004-2005	7,700	28,000
2005-2009	16,150	126,000
Totals	<u>\$ 67,150</u>	<u>\$ 252,000</u>

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Liabilities of the Funds are:

Description	Purchase Date	Maturity Date	Interest Rate	Amount
Voting Machines	10/28/1992	02/01/2002	5.126	\$ 34,370
Health Department	9/29/1997	11/01/2007	4.250	\$ 34,000

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

BATH COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 569,231	\$ 628,411	\$ 59,180
Road and Bridge Fund	754,994	775,753	20,759
Jail Fund	47,713	55,045	7,332
Local Government Economic Assistance Fund	38,445	37,468	(977)
Courthouse Renovation		528,580	528,580
<u>Special Revenue Fund Type</u>			
911 Fund	94,200	100,767	
Scattered Site Homebuyer Fund	996,000	410,481	(585,519)
<u>Debt Service Fund Type</u>			
Building Commission Fund		67,240	67,240
Totals	<u>\$ 2,500,583</u>	<u>\$ 2,603,745</u>	<u>\$ 96,595</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,500,583
Add: Budgeted Prior Year Surplus			<u>940,000</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,440,583</u>

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SCHEDULE OF OPERATING REVENUE

BATH COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

	<u>Governmental Fund Types</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
REVENUE:				
Taxes	\$ 293,869	\$ 293,869	\$	\$
In Lieu Tax Payments	2,527	2,527		
Excess Fees	51,936	51,936		
License and Permits	55,799	55,799		
Intergovernmental Revenues	1,949,080	1,474,802	410,481	63,797
Charges for Services	17,381	17,381		
Miscellaneous Revenues	178,419	78,771	99,272	376
Interest Earned	54,734	50,172	1,495	3,067
Total Operating Revenue	<u>\$ 2,603,745</u>	<u>\$ 2,025,257</u>	<u>\$ 511,248</u>	<u>\$ 67,240</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

BATH COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	General Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 970,224	\$ 828,721	\$ 141,503
Protection to Persons and Property	219,294	205,031	14,263
General Health and Sanitation	23,453	22,036	1,417
Social Services	10,800	9,976	824
Recreation and Culture	17,000	19,208	(2,208)
Roads	573,445	575,238	(1,793)
Bus Service		8,367	(8,367)
Debt Service	102,089	91,478	10,611
Capital Projects		9,239	(9,239)
Administration	412,901	189,650	223,251
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$ 2,329,206	\$ 1,958,944	\$ 370,262
Expenditure Categories	Special Revenue Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 871,177	\$ 410,481	\$ 460,696
Protection to Persons and Property	104,300	103,140	1,160
Administration	135,900	6,563	129,337
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 1,111,377	\$ 520,184	\$ 591,193

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SCHEDULE OF OTHER EXPENDITURES

BATH COUNTY
SCHEDULE OF OTHER EXPENDITURES

Fiscal Year Ended June 30, 2000

<u>Expenditure Items</u>	<u>Building Commission Fund</u>
Salaries	\$ 4,720
Maintenance	333
Utilities	4,936
Repairs	7,558
Trustee Fees	300
Office Materials and Supplies	<u>3,413</u>
Totals	<u><u>\$ 21,260</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Ray Bailey, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Bath County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated January 3, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bath County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Ray Bailey, Bath County Judge/Executive
Members of the Bath County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 3, 2000

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Ray Bailey, Bath County Judge/Executive
Members of the Bath County Fiscal Court

Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Bath County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2000. Bath County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Bath County's management. Our responsibility is to express an opinion on Bath County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bath County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bath County's compliance with those requirements.

In our opinion, Bath County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2000.

Internal Control Over Compliance

The management of Bath County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bath County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Honorable Ray Bailey, Bath County Judge/Executive
Members of the Bath County Fiscal Court
Report On Compliance With Requirements Applicable To Each Major Program
And Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed –
January 3, 2000

FINDINGS AND QUESTIONED COSTS

BATH COUNTY
FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2000

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Bath County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Bath County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards program is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards program for Bath County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards program for Bath County reported in Part C of this schedule.
7. The program tested as a major program was the Community Block Development Grant: Scattered Site Homebuyer Project.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bath County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 1999, \$140,302 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Treasurer's Response:

Has been corrected.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BATH COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2000

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of Housing and Urban Development</u>		
 Passed-Through State Department of Local Government:		
State Administered Small Cities Program (CFDA #14.228) Community Development Block Grants-		
Scattered Site Homebuyer Project	B-980DC-21-0001	\$ 410,481
 <u>U.S. Department of Army</u>		
 U.S. Army Corp of Engineers Lake Patrol Grant (CFDA #52.222)		
		4,440
 <u>U. S. Federal Emergency Management Agency</u>		
 Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)		
		<u>7,361</u>
 Total Cash Expenditures of Federal Awards		 <u><u>\$ 417,842</u></u>

BATH COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2000

Note 1 - Basis of Presentation

This schedule is presented on a cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

BATH COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BATH COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Bath County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

x Ray Baile
Name
County Judge/Executive

x Brenda Shuman
Name
County Treasurer